

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

PETITION OF AQUA UTILITIES
CORPORATION, INC.
FOR APPROVAL OF DEBT ISSUANCE

02 APR 9 AM 10 57

OFFICE OF THE
EXECUTIVE SECRETARY

PAID T.R.A.

Chk # 1714

Amount 25.00

Rcvd By JR

Date 4-5-02

DOCKET NO. 02-00388

PETITION OF AQUA UTILITIES COMPANY, INC.
FOR APPROVAL OF DEBT ISSUANCE

Aqua Utilities Company, Inc. petitions the Tennessee Regulatory Authority pursuant to T.C.A. section 65-4-109 for approval to issue evidence of indebtedness as set forth herein. In support of this petition, Aqua Utilities provides the following:

1. Aqua Utilities Company, Inc. is a Tennessee Sub S corporation which maintains its principal place of business at 706 Main Street, Savannah, TN 38372.
2. Aqua Utilities seeks authority from the TRA to enter into a credit facility agreement with Columbus Bank & Trust, P.O. Box 120, Columbus, GA 31902, containing the following terms and conditions:

Borrower: Aqua Utilities Company, Inc.

Facility: \$475,000.00 loan

Collateral: One thousand shares of the capital stock of Aqua Utilities are pledged as security on the note.

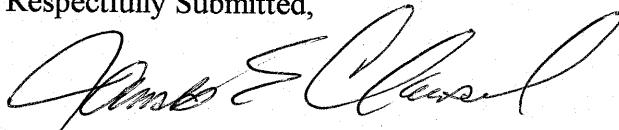
Repayment: Terms and conditions of note are attached.

Purpose: To purchase Aqua Utilities.

3. The proposed financing transaction complies with all applicable laws.

Wherefore, Aqua Utilities respectfully requests that the TRA authorize the issuance of the credit facility agreement as herein proposed.

Respectfully Submitted,



James E. Clausel



July 30, 2001

Mr. David Waddell,
Executive Secretary
Tennessee Regulatory Authority
465 James Roberts Parkway
Nashville, TN.

RE: MONTANNA LAND COMPANY, L.L.C.

Dear Mr. Waddell:

Thank you for your letter of July 26, 2001. In that regard, I offer the following:

- The loan has not been paid off. The loan matures in October of this year.
- The current principal balance is \$475,000.00.
- One thousand shares of the capital stock of Aqua Utilities Company, Inc. are pledged as security on the note.
- There is a trust deed on file related to the utility debt.
- Copies are attached to this letter.

I trust this is all the information that you need. Should the need for additional information arise or if you have questions, please call.

Sincerely,

Calvin Evans,
Senior Vice President

1905406

SECURED PROMISSORY NOTE

\$475,000.00

Columbus, Georgia
September 30, 1996

FOR VALUE RECEIVED, the undersigned MONTANA LAND COMPANY, L.L.C. (hereinafter called "Borrower"), promises to pay to the order of COLUMBUS BANK AND TRUST COMPANY, a Georgia banking corporation (herein, together with any assignee or holder hereof, called "Bank"), at Bank's principal place of business in Brunswick, Georgia, or at such other place as Bank may designate and notify the undersigned, the principal sum of FOUR HUNDRED SEVENTY-FIVE THOUSAND DOLLARS (\$475,000.00), together with interest from the date hereof, on the unpaid balances of said principal sum at the rate of eight and one-half percent (8½%) per annum, payable as hereinafter provided, and all costs of collection including reasonable attorney's fees if collected by law or through an attorney at law.

This Note represents a loan made pursuant to that certain Loan Agreement of even date herewith among Borrower, Bank and James E. Clausel ("Loan Agreement").

Interest only shall be due and payable hereunder quarterly, commencing on January 1, 1997 and on the first day of each April, July, October and January thereafter as long as any principal amount shall remain outstanding hereunder. The entire unpaid principal balance hereof, along with all accrued and unpaid interest hereon, shall be due and payable on October 1, 2001, the Maturity Date hereof. Interest hereon shall be computed on the basis of a 360-day year.

Payment of this Note is secured by certain real and personal property described in the Loan Agreement.

Borrower shall have the right, at any time, to pay any part or all of the unpaid principal balance in advance of its due date without premium or penalty. Each prepayment, when paid, shall be applied first to accrued interest and then to the unpaid principal balance hereof.

A late charge amounting to 5% of any required payment of interest not made within ten (10) days after its due date may be assessed at Bank's option, but not more than once for the same delinquency.

Time is of the essence hereof. In the event any sum payable hereon is not paid when due, or in the event of the occurrence of any Event of Default as defined in the Loan Agreement or in any of the other Loan Documents as defined in the Loan Agreement, then, and in any such event and at any time thereafter, at Bank's option, and without further demand or notice of any kind, the entire principal balance hereof at the time remaining unpaid, together with all interest then accrued hereon and unpaid, may be declared

COPY

and thereupon shall be and become immediately due and payable, and shall bear interest thenceforth at the Default Rate which shall be twelve and one-half percent (12½%) per annum.

This Note represents a loan and extension of credit to Borrower made by Bank at and from its principal place of business in Columbus, Georgia, and shall be governed by and construed in accordance with the laws of the State of Georgia.

Borrower represents and warrants that the loan evidenced by this Note is a non-consumer loan and none of the debt evidenced by this Note includes any credit extended, obtained or used for personal, family or household purposes of any nature.

Borrower hereby expressly waives demand, presentment for payment, protest, notice of protest, and notice of nonpayment or dishonor.

IN WITNESS WHEREOF, Borrower has executed and delivered this Note, under seal, the day and year first above written.

MONTANA LAND COMPANY, L.L.C.

By: 

Chief Manager

H:\BONE\SDL\CBT\MONTANA2.PK

07/30/01 MON 14:55 FAX 7066496988

CORP BANKING

005

STOCK PLEDGE AND SECURITY AGREEMENT

THIS STOCK PLEDGE AND SECURITY AGREEMENT ("Security Agreement") is made and entered into this 30th day of September, 1996, by MONTANA LAND COMPANY, L.L.C., a Tennessee Limited Liability company (the "Debtor"), in favor of COLUMBUS BANK AND TRUST COMPANY, a Georgia banking corporation (the "Secured Party").

In consideration of two loans this day made to Debtor by Secured Party, Debtor hereby covenants and agrees with Secured Party as follows:

1. Security Interest. To secure the payment and performance by Debtor of all of Debtor's obligations under the promissory notes of even date herewith in the original principal amounts of ONE MILLION SIX HUNDRED THIRTY THREE THOUSAND SEVEN HUNDRED FIFTY DOLLARS (\$1,633,750.00) and FOUR HUNDRED SEVENTY FIVE THOUSAND DOLLARS (\$475,000.00) in favor of Secured Party (collectively, the "Notes"), any note or notes given in renewal, modification or substitution of either or both of said Notes, the Loan Agreement of even date herewith among Secured Party, Debtor, and JAMES E. CLAUSEL (the "Loan Agreement"), and all of Debtor's obligations hereunder, and to secure the payment of any and all other indebtedness which may now or hereafter be owing by Debtor to Secured Party, its successors and assigns, however and whenever created, arising or evidenced, whether alone or together with another or others, whether direct, indirect or by way of assignment, whether joint or several, absolute or contingent, due or to become due, and whether as principal, maker, endorser, surety, guarantor, or otherwise, or which Secured Party may now or hereafter have, own or hold (all of said debts, obligations and liabilities are herein collectively called the "Liabilities"), Debtor hereby grants and conveys to Secured Party a present and continuing first in priority security interest in and security title to the following property (the "Collateral") and all proceeds thereof:

One Thousand (1,000) shares of the capital stock of Aqua Utilities Company, Inc., ("Aqua"), a Tennessee corporation, said shares constituting 100% of the capital stock of Aqua presently issued and outstanding and is represented by certificates which are delivered to Secured Party contemporaneously herewith, with appropriate stock powers duly executed by Debtor (the said shares of capital stock of Aqua are hereinafter referred to as the "Aqua Stock"),

together with all other property of every nature whatsoever of Debtor now or hereafter with or in the possession of, or assigned or hypothecated to Secured Party for any purpose, including but not limited to, balances, credits, deposits, accounts, items and monies of Debtor now or hereafter with the Secured Party, and all

COPY

dividends and distributions on, rights in connection with, and proceeds of such property.

The Aqua Stock described hereinabove, together with all stock dividends, stock splits, options, stock purchase rights and all other property at any time and from time to time distributed by Aqua in respect of, or in exchange for, or in substitution of any or all of such capital stock, and all proceeds thereof, whether now existing or at any time hereafter acquired or issued, are sometimes hereinafter referred to as the "Stock Collateral."

2. Debtor's Representations and Warranties. Debtor represents, warrants and covenants that:

(a) Debtor is vested with sole, lawful and unencumbered title to the Stock Collateral with full power to transfer, convey and encumber;

(b) Debtor has the right to pledge and convey the Stock Collateral as security for the Liabilities;

(c) No financing statement or claim of security interest in favor of any other party with respect to any of the Stock Collateral is on file in any public office and the Debtor will execute and deliver to Secured Party such financing statements and other documents (and pay the costs, tax and other expenses in connection with filing or recording same), and do such other acts and things as Secured Party from time to time may request in order for Secured Party to establish and maintain a valid and perfected security interest in the Collateral;

(d) Debtor will promptly pay or discharge all taxes assessed against the Stock Collateral and all liens which may attach thereto;

(e) Debtor will not change the location of Debtor's address without thirty days prior written notice to Secured Party;

(f) All information heretofore or henceforth at any time furnished to the Secured Party by Debtor with respect to the Notes, the Collateral or this Security Agreement, whether in the form of a schedule, certificate, report or other writing, is and will be true and correct in all material respects as of the date furnished;

(g) Debtor and Aqua shall promptly furnish to Secured Party (and any participating lender) on an annual basis the statements of financial condition and all other information, reports and audits required by the Loan Agreement. Also, Debtor shall promptly furnish any and all other reports, audits, and information from time to time reasonably requested by Secured Party with respect to the financial posture and operations of Debtor and Aqua.

(h) Unless permitted by Secured Party in writing, all of Debtor's books, records and documents relating to its operations and/or the Collateral will be kept at Debtor's address; and

(i) Without Secured Party's prior written consent, neither Debtor nor Aqua shall merge into or consolidate with another corporation or entity, alter its existing corporate structure, or sell, encumber, transfer or otherwise dispose of the Collateral or any portion thereof.

3. Appointment of Secured Party as Debtor's Attorney-in-Fact. Debtor does hereby irrevocably make, constitute and appoint Secured Party as Debtor's true and lawful attorney-in-fact, with full power and authority to execute and deliver, in Debtor's name or in Debtor's behalf, any and all applications, certificates, endorsements, instruments and other documents of every nature which Secured Party at any time and from time to time shall reasonably deem necessary for the establishment and continuation of its perfected security interest in the Collateral or for the exercise of any and all of its rights and remedies herein or in the Loan Agreement provided with respect to the Collateral, including but not limited to any disposition of Collateral in the event of foreclosure; and to take any, all and such other action as Secured Party shall reasonably deem necessary in furtherance of the foregoing. Without limiting the generality of the foregoing, Secured Party shall have the right and power to receive, endorse and collect all checks and other orders for the payment of money made payable to Debtor representing any interest or dividend or other distribution payable in respect of the Collateral or any part thereof and give full discharge for the same. In exercising the power of attorney hereby granted, Secured Party may act by and through its authorized officers or any other designee. Said power of attorney, being coupled with an interest, is and shall be irrevocable, and shall be terminated only upon the indefeasible payment in full of the Liabilities.

4. Events of Default. The occurrence of any event or condition which constitutes an Event of Default under the Loan Agreement shall constitute an Event of Default for the purpose of this Security Agreement.

5. Remedies of Secured Party. Upon the occurrence and during the continuance of an Event of Default, Secured Party shall have and at its option may exercise, at any time and from time to time and without notice to Debtor, each, any and all of its rights and remedies herein or in the Notes or Loan Agreement provided or which are otherwise available to Secured Party under the Uniform Commercial Code at the time in effect in Georgia or other applicable law, including but not limited to the right to declare accelerated and thereby render immediately due and payable all indebtedness and Liabilities herein contemplated (whether represented by the Notes or otherwise), to enforce collection of said

indebtedness from Debtor by suit or other lawful means, and to exercise any and all rights of foreclosure hereinafter provided or otherwise available to Secured Party with respect to the Collateral. All such rights and remedies are and shall be cumulative and may be exercised singly, concurrently, or in such combinations as Secured Party from time to time may elect. The failure to exercise or the incomplete exercise of any such remedy shall not constitute a waiver thereof, nor shall use of any such remedy prevent the subsequent resort to the same or any other remedy or remedies. It is intended that this clause shall be broadly construed so that all remedies herein provided for or otherwise available to Secured Party shall continue and be each and all available to Secured Party until all sums due it by reason of the transactions and obligations contemplated by the Notes, the Loan Agreement, this Security Agreement and all instruments and documents evidencing any of the Liabilities have been fully paid and fully discharged without loss or damage to Secured Party. Without limiting the generality of the foregoing, Secured Party hereby is and shall be fully authorized and empowered, at its option, to exercise any and all of the following rights and remedies, with or without notice to Debtor, with or without legal process, and whether or not exercising any other rights or remedies, to-wit:

(a) Stock Registration. Secured Party may cause the Aqua Stock to be registered in the name of Secured Party or its nominee, and thereupon exercise all voting rights and receive all dividends and distributions relating to or payable on said stock.

(b) Foreclosure. Secured Party may take possession of and sell, assign, or otherwise dispose of the Collateral (including but not limited to the Aqua Stock) or any part thereof, at public or private sale or in any other lawful manner, in parcels or in bulk, for cash or otherwise, and for such considerations and upon such terms as Secured Party in its sole discretion shall deem acceptable and advisable, thereby divesting Debtor of its ownership of such Collateral and any right of redemption therein, which right of redemption is hereby expressly waived by Debtor. Secured Party or its parent holding company or other designee may bid and purchase at any such sale.

Secured Party shall act as the authorized agent and attorney-in-fact of Debtor in disposing of the Stock Collateral, and in that capacity is authorized to take such action on behalf of Debtor as will further such a disposition, including without limitation, any necessary endorsement or signature in Secured Party's own or Debtor's name. Debtor expressly acknowledges that compliance with federal or state securities and other laws may limit the disposition of the Stock Collateral by Secured Party. No disposition of the Stock Collateral by Secured Party upon a default shall be deemed to be a breach of any duty to Debtor to be commercially reasonable because a better sales price might have been attained through an alternative disposition if Secured Party

has acted reasonably and in good faith, or if Secured Party in good faith has determined that the alternative disposition might constitute a violation of state or federal laws. Without limiting the generality of the foregoing, Secured Party may at any sale of the Stock Collateral restrict the prospective bidders or purchasers of the Stock Collateral to persons who will represent and agree that they are purchasing the Stock Collateral for their own account for investment, and not with a view to distribution or sale, to persons who represent and agree that they are all residents of one particular state, or to persons who represent and agree that they are sophisticated investors having such net worth that they could withstand the loss of any investment made in purchasing any part or all of the Stock Collateral, or other similar restrictions, along with restricting the number of purchasers or prospective purchasers of said Stock Collateral. Any purchaser at a sale conducted pursuant to the terms of this Security Agreement shall hold the property sold absolutely, free from any claim or right on the part of Debtor, and Debtor hereby waives any right of redemption, stay or appraisal under present or future law. Each and every purchaser of any of the Stock Collateral shall be vested with all shareholder's rights provided by the stock purchased, including without limitation, all voting and dividend rights. Debtor agrees that Secured Party or its parent holding company or other designee may bid or purchase the Stock Collateral or any part thereof at any such sale. Any requirement imposed by law regarding the giving to Debtor of prior notice of any sale or other disposition of the Stock Collateral shall be deemed reasonable if given by Secured Party in writing at least seven days prior to such sale or other disposition specifying the time and place thereof.

(c) Notification. If any notice of intended disposition of any Collateral is required by law, such notification shall be deemed reasonable and sufficiently given if given by mail, as hereinafter provided, at least seven (7) days before such disposition.

(d) Set-off. Secured Party may appropriate and apply toward payment of the Liabilities, in such order of application as Secured Party may elect, any balances, credits, deposits, items or monies of Debtor at any time held by Secured Party;

(e) Proceeds. Funds and proceeds collected and received by Secured Party on the Collateral from its sale or other disposition of same or any part thereof, or pursuant to Secured Party's exercise of any other remedy herein contemplated, shall be applied first to payment of the expenses incurred by Secured Party in collecting same (including but not limited to reasonable attorneys' fees actually incurred and the costs of retaking, holding, and preparing any Collateral or and conducting the sale or other disposition), and then toward payment of the Liabilities in such order of application among the components thereof as Secured Party in its sole discretion may elect. Any overplus remaining in the

hands of Secured Party, after the Liabilities are fully paid, shall be remitted to Debtor; and if there is a deficiency, Debtor shall remain liable for and pay same to Secured Party on demand.

(f) Hold Funds. Secured Party may require that all funds and proceeds collected by Debtor on the Collateral, including but not limited to dividends on the Aqua Stock, be held in trust for the use of Secured Party, separately from and without commingling same with other funds of Debtor.

6. Securities. In view of the position of Debtor in relation to the Stock Collateral, or because of other present or future circumstances, a question may arise under the Securities Act of 1933, as amended, as now or hereafter in effect, or any similar statute hereafter enacted analogous in purpose or effect (such Act and any such similar statute as from time to time in effect being hereinafter called the "Federal Securities Laws") with respect to any disposition of the Stock Collateral permitted hereunder. Similarly, there may be other legal restrictions or limitations affecting Secured Party in any attempt to dispose of all or any part of the Stock Collateral under applicable Blue Sky or other state securities laws or similar laws analogous in purpose or effect. Debtor understands that compliance with the Federal Securities Laws may limit the course of conduct of Secured Party if Secured Party were to attempt to dispose of all or any part of the Stock Collateral and may also limit the extent to which or the manner in which any subsequent transferee of any Stock Collateral may dispose of the same, and such compliance by Secured Party shall not be deemed to constitute a breach of any duty or obligation of Secured Party to Debtor.

7. Miscellaneous Provisions.

(a) Incorporation by Reference. The Notes, the Loan Agreement and all other Loan Documents therein defined are incorporated herein and made a part hereof by this reference.

(b) Governing Law. This Security Agreement shall be construed in accordance with and governed by Georgia law.

(c) Endorsement. Secured Party may endorse in Debtor's name any item, howsoever received by Secured Party, representing payment on any proceeds of the Collateral.

(d) Assignments. Secured Party may require written assignment, to Secured Party or its designee, of any specific instruments representing the Collateral or any proceeds thereof.

(e) No Waiver. Secured Party shall not be deemed to waive any of its rights hereunder unless such waiver shall be in writing and signed by the Secured Party. No delay or omission by Secured Party in exercising any of its rights shall operate as a

waiver of such rights, and a waiver in writing on one occasion shall not be construed as a waiver of such rights on any future occasion.

(f) Successors. All liabilities and obligations of Debtor hereunder shall also be binding upon Debtor's successors and permitted assigns. The word "Secured Party" as used herein shall include successors, transferees and assigns of Secured Party and all rights of Secured Party hereunder shall inure to the benefit of its successors, transferees and assigns. Debtor specifically acknowledges that Debtor shall have no right whatsoever, without prior express written consent of Secured Party, to assign any obligations of Debtor hereunder. Debtor further specifically acknowledges that Secured Party shall have the absolute right, without Debtor's consent, to transfer or assign all of Secured Party's rights hereunder to any person or entity as shall be determined by Secured Party, in its sole discretion.

(g) Notices. Any notice which may be required to be given hereunder shall be in writing and shall be sent to the other party by certified mail, return receipt requested, postage prepaid, to Debtor or Secured Party at the following addresses:

If to Secured Party:

Columbus Bank and Trust Company
Post Office Box 120
1148 Broadway
Columbus, Georgia 31902
Attn: Regional Lending Department

If to Debtor:

Montana Land Company, L.L.C.
1311 Avalon Place
Savannah, TN 38372
Attn: Chief Manager

The date and time of postmark shall be deemed the effective date of such notice.

(h) Time of the Essence. Time is of the essence of this Security Agreement and of each and every provision hereof.

(i) Cumulative Rights. Each and every right granted to Secured Party under this Security Agreement, or under any other document delivered hereunder or in connection herewith or allowed it by law or in equity, shall be cumulative and may be exercised from time to time. No failure on the part of Secured Party to exercise, and no delay in exercising any right shall operate as a waiver thereof, nor shall any single or partial exercise by Secured Party of any right preclude any other or future exercise of the same or any other right. No waiver by Secured Party of any event of default shall constitute a waiver of any subsequent event of default.

(j) No Further Encumbrance. Debtor will not create or suffer to be created or to exist any mortgage, lien, charge or encumbrance on, or pledge of other security interests (including any such interest arising from a conditional sale or other type of retention agreement) in any of the property which constitutes the Collateral, excepting taxes for the current year which are not delinquent.

(k) Section Titles. The underscored titles or headings to the sections, subsections or other divisions hereof are only for convenience of reference, and shall not be construed to have any effect or meaning with respect to any other content of such sections, subsections or divisions.

IN WITNESS WHEREOF, Debtor has caused this Security Agreement to be duly executed, sealed and delivered to Secured Party in Columbus, Georgia, as of the day and year first above written.

MONTANA LAND COMPANY, L.L.C.

By: James E. Reed

Chief Manager

Address of Debtor:

1311 Avalon Place
Savannah, TN 38372

X:\HOME\SDI\DET\MLC.SPA